

## Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AEC-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01 H-01 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01

OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-03 PRS-01 PA-01

USIA-06 NEA-09 /094 W

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R 052039Z FEB 75

FM AMEMBASSY CARACAS

TO AMEMBASSY LIMA

INFO SECSTATE WASHDC 7561

AMEMBASSY GUATEMALA

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY PANAMA

AMEMBASSY MEXICO

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E.O. O. 11652: N/A

TAGS: ENRG PFOR PE XK VE

SUBJ: VENEZUELAN OIL DEAL WITH PERU; NO MOVEMENT ON  
CENTRAL AMERICAN AGREEMENT

REF: (A) LIMA 0773 (B) LIMA 0740 (C) CARACAS 1190 (D) CARACAS 1232  
(E) CARACAS 12424

1. VENEZUELAN PETROLEUM CORPORATION (CVP), THE NATIONAL OIL  
COMPANY, WILL CARRY OUT AGREEMENT TO SUPPLY PETROPERU WITH  
20,000 B/D OF CRUDE OIL. THE AGREEMENT IS BELIEVED TO BE FOR TWO  
YEAR PERIOD 1975-76. THE PRICE, WHICH HAS APPARENTLY NOT BEEN  
DEFINITELY ESTABLISHED, WILL BE QUOTE THE PREVAILING MARKET PRICE  
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UNQUOTE, AND NOT BASED ON VENEZUELA'S ARTIFICIAL TAX EXPORT

VALUES. PETROPERU WILL PAY ONE HALF OF THE AGREED PRICE ON A CURRENT ACCOUNT (CASH) BASIS. ONE HALF OF THE AGREED PRICE WILL BE DEFERRED FOR TWO YEARS UNTIL PERU HAS ITS TRANS-ANDEAN PIPELINE OPERATING, AT WHICH TIME PERU WILL PAY IN OIL THE SECOND HALF OF ITS OBLIGATION. PETROPERU WILL PAY INTEREST ON THE DEFERRED OIL DEBT, PROBABLY EQUIVALENT TO THE CENTRAL AMERICAN ARRANGEMENT. THE OIL WILL BE DELIVERED BY CVP'S TWO-TANKER FLEET.

2. THIS AGREEMENT CALLS FOR CVP TO DELIVER APPROXIMATELY 7.3 MILLION BBLs. PER YEAR. ACCORDING TO MINES MINISTRY DATA, CVP PRODUCED SLIGHTLY

OVER 27 MILLION BBLs IN 1974. CVP'S DECEMBER 1974 PRODUCTION RATE WAS EVEN LOWER, WORKING OUT AT JUST OVER 21 MILLION BBLs. ON ANNUAL BASIS. THUS, CVP WOULD BE REQUIRED TO ALLOCATE ABOUT ONE-THIRD OF CURRENT PRODUCTION TO PERU. SOME OF ALLOCATION WILL COME FROM ANNUAL SALES CONTRACTS CVP DID NOT RENEW WITH CUSTOMERS AT BEGINNING OF 1975. REMAINDER IS EXPECTED TO COME FROM CVP BUDARE OIL FIELD IN EASTERN VENEZUELA, WHICH HAS BEEN CLOSED IN FOR CONSERVATION REASONS. BUDARE WAS INAUGURATED IN APRIL 1972 AND PRODUCTED OVER 4 MILLION BBLs. DURING REMAINDER OF THAT YEAR. FIELD PRODUCED OVER 9.5 MILLION BBLs. IN 1973, BUT THIS PRODUCTION WAS SHARED BY MENE GRANDE (GULF) AND CVP.

3. USING ROUGH ESTIMATE OF \$11 CURRENT MARKET PRICE FOR OIL, PERU COULD END UP OWING VENEZUELA IN NEIGHBORHOOD OF \$40 MILLION, PLUS INTEREST, FOR EACH YEAR THE SUPPLY AGREEMENT IS CONTINUED. THIS ARRANGEMENT IS PROBABLY ADVANAGEOUS TO PERU, IF THE ASSUMPTION IS MADE THAT OIL PRICES WILL DECLINE DURING NEXT TWO YEARS. SINCE ARRANGEMENT BASED ON PRESENT MARKET PRICE, PERU WILL BE OBLIGED TO SHIP LESS OIL AS REPAYMENT IF MARKET PRICE IS LOWER AT THAT TIME. OF COURSE, IF OIL PRICE INCREASES OVER THE INTERVAL, THE REVERSE WILL BE TRUE, AND PERU WILL LOSE SOME REVENUE.

4. ON THE PREVIOUS OIL FINANCING ARRANGEMENT WITH CENTRAL AMERICA AND PANAMA, IT APPEARS FROM HERE THAT THERE HAS BEEN NO MOVEMENT TOWARDS ACTUAL IMPLEMENTATION. TEXACO IS CONTINUING TO SUPPLY PANAMA, HONDURAS AND GUATEMALA AS USUAL, AND HAS HEARD NOTHING FROM THE GOV. CVP AND MINES MINISTRY SOURCES, WHO WOULD NORMALLY BE IN A POSITION TO KNOW, HAVE SEEN NO ACTIVITY ON THIS AGREEMENT. CVP CLEARLY DOES NOT HAVE OIL AVAILABLE TO ASSUME MARKET ROLE IN CENTRAL LIMITED OFFICIAL USE

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AMERICA, UNLESS IT FOREGOES ALL OTHER CURRENT BUSINESS ARRANGEMENTS. IFN A PAYMENT MECHANISM HAS BEEN WORKED OUT TO REIMBURSE THE PRIVATE OIL COMPANIES NOW SUPPLYING CENTRAL AMERICA, NOBODY HAS BOTHERED TO INFORM THEM.

5. PERHAPS THE NEWSPAPER STORY DATELINED GUATEMALA OF FEBRUARY 4, TO EFFECT THAT KUWAIT HAS OFFERED TO SUPPLY 300,000 B/D TO THAT COUNTRY

AND PERHAPS HELP TO INSTALL A NEW CRUDE REFINERY IN GUATEMALA, WILL  
BE CATALYST THAT GALVANIZES GOV INTO ACTION.  
MCCLINTOCK

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## Message Attributes

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